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## FISCAL UPDATE Article

Fiscal Services Division

December 12, 2017



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### REVISED GENERAL FUND BALANCE SHEET (AFTER THE 12/11/17 REC MEETING)

**Revised Revenue Estimates.** The Revenue Estimating Conference (REC) met December 11, 2017, and revised the FY 2018 and FY 2019 General Fund revenue estimates. The REC estimate for FY 2018 was unchanged from the October estimate and totaled \$7.238 billion, representing a decrease of \$2.5 million (0.0% rounded) compared to actual FY 2017 net General Fund receipts after transfers. The revised FY 2019 estimate totaled \$7.527 billion, an increase of \$289.5 million (4.0%) compared to the revised FY 2018 estimate.

**Revised Balance Sheet.** The General Fund balance sheet included in this update incorporates the December REC estimates and includes revised appropriation estimates for FY 2018 and a projection of the condition of the General Fund budget for FY 2019.

**Fiscal Year 2018 Budget Update.** The initial FY 2018 budget enacted during the 2017 Legislative Session was based on available funds totaling \$7.371 billion. Net appropriations (after reversions) enacted totaled \$7.263 billion, resulting in a projected surplus of \$107.3 million. The REC estimate revised at the December REC meeting reduces the funds available for FY 2018 by \$133.0 million (1.8%). This estimate, together with a net increase of \$9.2 million in appropriations,<sup>1</sup> results in an estimated budget shortfall of \$34.9 million for FY 2018.

**Fiscal Year 2019 Budget Projection.** The FY 2019 projection is intended to assist the General Assembly in evaluating budget decisions for the next fiscal year. The appropriation estimates for FY 2019 are largely based on the following assumptions:

- The FY 2019 REC revenue estimate of \$7.527 billion is the basis for the Legislative Services Agency (LSA) FY 2019 projection. The REC estimate is based on tax laws and other revenue policies in place at the time the estimate was adopted.
- The expenditure limitation for FY 2019 is estimated to be \$7.452 billion, which represents 99.0% of the REC net revenue estimate (\$7.527 billion).
- The enacted appropriations from FY 2018 (\$7.269 billion) are used as the baseline for FY 2019 appropriations. The baseline estimate does not include the repayment of \$13.0 million to the Economic Emergency Fund in FY 2018 or a \$4.1 million adjustment to the FY 2018 State school aid standing appropriation.
- Appropriations and expenditures for FY 2019 are analyzed by LSA staff to account for automatic increases or decreases (built-in and anticipated expenditures) over and above the baseline estimate prior to legislative action. These appropriation changes are generally established in the Iowa Code; however, in some instances reasonable assumptions are applied to the estimates. The LSA does not assume the enactment of legislation impacting tax policy or the funding of new programs in the budget projection. The built-in and anticipated expenditures estimates currently total \$291.0 million. **Chart 1** summarizes these expenditure increases for FY 2019.

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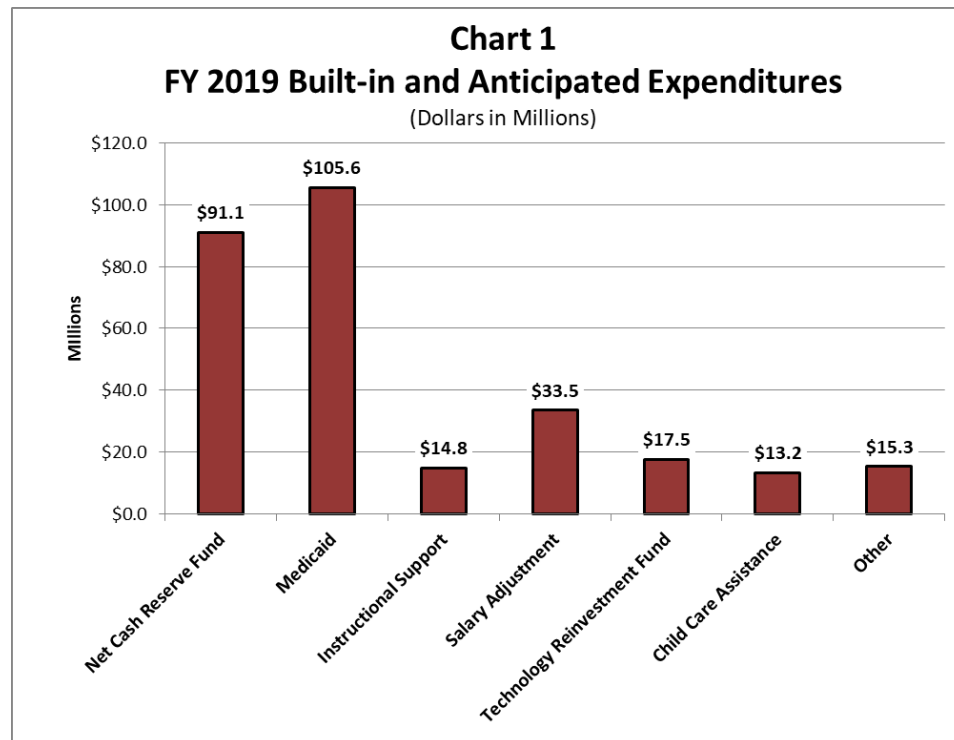
<sup>1</sup> The estimated FY 2018 appropriations have been adjusted to reflect the repayment of \$13.0 million in FY 2018 for the FY 2017 transfer from the Economic Emergency Fund to the General Fund. The adjustments also include a reduction of \$4.1 million to the State school aid appropriation due to finalized enrollment and property valuation factors, and an estimated supplemental appropriation of \$250,000 to the Department of Administrative Services to cover a shortfall for utility expenses on the Capitol complex.

- Reversions are estimated to total \$5.0 million for FY 2019. Reversions are appropriated funds that remain unexpended at the close of the fiscal year and are deposited back in the General Fund.

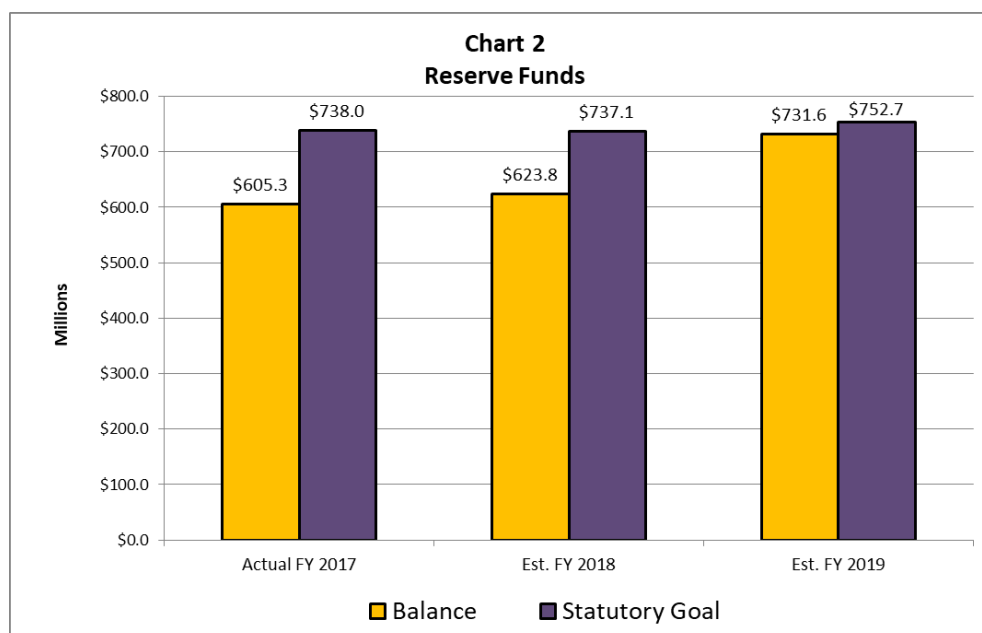
**Table 1** shows the projected General Fund budget for FY 2019 based on the above assumptions. The projected appropriations exceed the estimated expenditure limitation by \$107.9 million. The FY 2019 General Fund surplus is projected to total \$80.3 million after adjustments are made to address the estimated \$107.9 million shortfall.

The estimates included on the balance sheet for FY 2018 and FY 2019 will be reevaluated in January to incorporate potential effects associated with federal tax law changes.

State of Iowa			
Projected Condition of the General Fund Budget			
(Dollars in Millions)			
	Actual	Estimated	LSA
	FY 2017	FY 2018	Projection
			FY 2019
<b>Funds Available:</b>			
Net Receipts (REC December 2017)	\$ 7,095.9	\$ 7,237.5	\$ 7,527.0
Cash Reserve Transfer	131.1	0.0	0.0
Economic Emergency Fund Transfer	13.0	0.0	0.0
Net General Fund Receipts	<u>7,240.0</u>	<u>7,237.5</u>	<u>7,527.0</u>
Surplus Carryforward	18.2	0.0	0.0
<b>Total Funds Available</b>	<u>\$ 7,258.2</u>	<u>\$ 7,237.5</u>	<u>\$ 7,527.0</u>
<b>Expenditure Limitation</b>			<b>\$ 7,451.7</b>
<b>Estimated Appropriations and Expenditures:</b>			
Enacted Appropriations/FY 2019 Baseline	\$ 7,351.7	\$ 7,268.6	\$ 7,268.6
Transfer to Economic Emergency Fund	0.0	13.0	0.0
Adjustments to Standings	0.0	- 4.1 <sup>1</sup>	0.0
Supplemental/Deappropriations	- 88.2	0.3 <sup>2</sup>	0.0
Built-in and Anticipated Increases	<u>0.0</u>	<u>0.0</u>	<u>291.0</u>
Total Before Balance Adjustment	7,263.5	7,277.8	7,559.6
Adjustment to Balance Budget	<u>0.0</u>	<u>- 34.9</u>	<u>- 107.9</u>
<b>Total Appropriations</b>	<u>\$ 7,263.5</u>	<u>\$ 7,242.9</u>	<u>\$ 7,451.7</u>
Reversions	<u>- 5.3</u>	<u>- 5.4</u>	<u>- 5.0</u>
<b>Net Appropriations</b>	<u>\$ 7,258.2</u>	<u>\$ 7,237.5</u>	<u>\$ 7,446.7</u>
<b>Ending Balance – Surplus</b>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 80.3</u>
<sup>1</sup> The FY 2018 school aid standing appropriation was adjusted downward by \$4.1 million as a result of finalized formula factors.			
<sup>2</sup> The Department of Administrative Services is requesting a supplemental appropriation of \$250,000 to cover utility expenses on the Capitol complex.			



**Reserve Funds.** At the close of FY 2017, the balances in the State's two reserve funds totaled \$605.3 million, which was \$132.7 million below the statutory goal of \$738.0 million. The balances are projected to increase to \$623.8 million in FY 2018 and \$731.6 million in FY 2019. The statutory goals of the reserve funds are equal to 10.0% of the adjusted revenue estimate for each fiscal year. For FY 2018, the estimated reserve fund balances are \$113.3 million below the statutory goal of \$737.1 million, and for FY 2019, they are \$21.1 million below the statutory goal of \$752.7 million. The reserve fund balances and statutory goals are shown in **Chart 2**.



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